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The Problem:

In the fall of 1986, the Reagan Administration was confronted with a political problem that was the fruit of a major U.S. policy success. For eight years, both the Reagan and Carter Administrations had sought to reduce U.S. dependence on OPEC oil by forcing consumers to bear the burden of sharply higher oil prices. The results were remarkable: a major decline in oil consumption and imports occurred in the first half of the decade. But by 1985 the other shoe was dropping: in the face of continuing high OPEC and non-OPEC production, oil prices began a slide that cut the cost of a barrel in half, dropping to below \$10 per barrel in April 1986.

The low prices hurt oil producers everywhere, including in the U.S.' own domestic oilfields. By mid-1986, a recession was sweeping Texas, Louisiana, Oklahoma and other producing states. As domestic oil production fell off, it was replaced by higher oil imports. Industry spokesmen began to call for action by the Federal government, based on the oil industry's critical strategic importance to the nation. The most frequently proposed remedy was to levy a fee on imported oil, which would reduce imports, provide substantial windfall benefits to domestic producers, and reduce the burgeoning Federal deficit. In April, 1986, in the aftermath of the raid on Libya, the governors of six energy-producing states called on the Administration to enact energy policy measures that would raise the price of imported oil, noting that the autonomy of U.S. security policy depended on energy independence.<sup>1</sup> Soon thereafter, several proposals for oil import fees or quotas were introduced in Congress.

The Administration, however, was opposed to an oil import fee, or to any other intervention in energy pricing. In the wake of a public controversy over whether the U.S. should seek Saudi help in ending oil's free fall, President Reagan told a gathering of newspaper editors that he opposed manipulation of prices:

"We still believe in the free market. We know that it now is a hardship for the oil-producing regions and industry here in America. At the same time, we can't deny that it has been of great benefit to the rest of industry in America, to our productivity because of the importance of energy as a part of production, and of benefit to our citizens, with the lower prices."<sup>2</sup>

This position effectively ruled out aid to stricken oil-producing regions. In the run-up to the 1986 Congressional elections, the Democrats charged that Reagan and his Republican allies were indifferent to the plight of domestic oil producers.

#### The Response:

On September 19, President Reagan announced a high-level review of the nation's energy security. Administration officials said the study, led by the Department of Energy, would look at a variety of actions that could reduce dependence on foreign oil -- and help the domestic industry as well. Reagan chose a political forum to announce the study: a campaign dinner for Rep. W. Henson Moore, Republican candidate for the Senate in the oil producing state of Louisiana.

Within a few weeks, the resources of the Executive Branch were mobilized; portions of the study were assigned to various units of DOE, as well as State and Treasury. An interagency group was established to oversee the work; several agencies not involved

in the drafting (including OMB, CEA, DOD, and Commerce) joined the supervisory team in an effort to ensure the report did not take positions contrary to their interests.

The study was led by Deputy Secretary of Energy William F. Martin, a former NSC economic advisor who is credited by several observers<sup>3</sup> with suggesting the study to the White House. The same observers note that Martin may have had a variety of motives for proposing the study:

- To outflank the Administration's opponents by creating the appearance of motion before the November elections;
- To build support for energy policy measures previously endorsed by the Administration, but stymied in the Congress (e.g. natural gas price decontrol, repeal of the windfall profits tax, increased drilling in Alaska and California);
- To circumvent opponents within the Administration to policy measures DOE found desirable (e.g. OMB's opposition to increasing the fill rate of the Strategic Petroleum Reserve (SPR), Treasury's opposition to tax incentives); and
- To provide a vehicle to demonstrate leadership by DOE (and Martin himself) on an issue of vital importance to the DOE's "client" industries.

Whatever Martin's motives, it is clear in retrospect that the President and his advisors saw the study largely in a political context. It would create the appearance of forward movement and would buy time during which the woes of the "oil patch" might be eased by higher oil prices or by economic adjustment and migration of displaced workers to new jobs. While some in Congress thought the study might provide the cover

necessary for a change in the President's position opposing an oil import fee, insiders<sup>4</sup> agree that within the Administration there was never serious thought given to such a change. The desired outcome was not a shift in the Administration's position; it was an analysis that would support existing policy choices.<sup>5</sup>

Indeed, the political motivation was widely recognized at the time the study was announced. The venue for the announcement (Henson Moore's campaign dinner) was chosen for its impact on a key Senate race. Unfortunately, it also left the Administration open to charges that the move was purely political, "aimed more at influencing oil-patch elections than stabilizing oil prices."<sup>6</sup> Louisiana's Democratic Senator, Bennett Johnston, promptly called the move "political pap for the election," while a knowledgeable industry observer was a bit more charitable, telling the New York Times it was "largely a political gesture" that would allow the Administration to take a hard look at the problem at the highest level.<sup>7</sup> The White House, of course, rejected suggestions of political motivation in the policy review.

#### The Study:

The election passed, and with it the principal motivation for the energy security study. In spite of the President's support, Henson Moore lost. When the interagency group working on the study became bogged down in controversy soon thereafter, Martin is reported to have emphasized that notwithstanding the electoral outcome, the Administration was on the hook to produce a substantive report.<sup>8</sup>

The principal obstacle to rapid completion of the study, not surprisingly, was the divergence of views held by different

Executive Branch agencies, and the varying priorities they assigned when Administration goals came into conflict. On the key issue of an oil import fee, there was no serious argument. Even DOE -- the principal proponent of oil patch interests -- recognized that the Administration's overall world-view precluded adoption of such a nakedly market-distorting measure.

On lesser matters, however, there was no unanimity:

The Department of Energy had a wide range of interests at stake in the study. Much of DOE's rhetoric was couched in terms of protecting America's energy security -- but some of the policy measures DOE supported actually would improve the health of the oil and gas industry by using tax breaks or other measures to stimulate more rapid consumption of our remaining oil supplies, thus worsening U.S. energy security in the future. This was understandable only in the context of interest group politics: some parts of DOE were primarily interested in supporting the domestic oil and gas industry, and viewed the industry as DOE's "clients." Other parts of the Department favored measures to reduce dependence on oil by promoting nuclear, solar or conservation strategies (although under the Reagan Administration the latter actors were reduced to bit parts) or to increase the nation's Strategic Petroleum Reserve.

The Office of Management and Budget had twin concerns: avoiding new budgetary commitments and maintaining the Administration's reliance on market forces to set prices. OMB had made several attempts to reduce or eliminate funding for the Strategic Petroleum Reserve, (SPR) which it saw as a nonessential drain on the budget. It had succeeded in reducing purchases of

oil for the SPR (the "fill rate") to 35,000 barrels per day, and was (rightly) concerned that the energy security study would be used to make another run at that issue. OMB's principal tactic was one it uses to advance its policy interests on numerous occasions: it challenged the validity of the economic assumptions and analysis produced by its interagency opponents. In vintage style, one OMB official told the press after the report was issued the agency's only concern was "to make sure that the conclusions reached were based on good assumptions."<sup>9</sup> Other participants, however, believed OMB was grinding its own axes.<sup>10</sup>

The Department of Defense was inclined to stress the strategic impact of increasing oil imports. It supported a high fill rate for the SPR.

The Department of State was primarily interested in maintaining U.S. international commitments. For State, this meant squelching proposals for an oil import fee, which would violate GATT commitments and create an obligation to provide massive trade compensation to oil-producing countries. State also supported increased SPR fill, both as an insurance policy that increased U.S. leverage in dealing with oil producers, and as a concrete demonstration to our allies in the International Energy Agency of U.S. determination to take concrete actions to enhance mutual energy security.

The Treasury Department placed greatest stress on tax neutrality. It wanted to protect its newest achievement, the Tax Reform Act of 1986, and avoid recommendations for any new tax advantages for the oil and gas industry.



The Council of Economic Advisers believed the Administration's primary emphasis should be on unfettered energy markets; it strongly opposed any consideration of an oil import fee. Like Treasury, CEA also opposed new tax breaks.

The Department of Commerce, while sympathetic to the plight of the oil and gas industry, was more worried about the impact of higher energy prices on the nation's other industrial sectors. It wanted to avoid any steps that would raise energy prices and worsen our international competitiveness.

The situation was classic: each of the agencies was guided by policy objectives of the Reagan Administration: national security, the health of domestic industries, tax reform, free-market orientation, etc. Yet, their conflicting interpretations of the priorities to be placed on these goals produced deadlock. For several months, the study went nowhere, as the agencies fought over the analysis and the presumptive conclusions. Martin told the press in November the report would be ready in January 1987;<sup>11</sup> in January, he was only able to express "hope" for release in March<sup>12</sup>.

With progress stymied, Martin opted for an unusual procedural ploy. After consultation with the White House and senior levels at OMB (thus getting around obstructionist mid-level officials), he decreed that the report would be issued under the name of the Secretary of Energy. DOE would accept input from all the other agencies, and would ensure its analysis was strong and its recommendations within broad Administration policy parameters, but it alone would have responsibility for the study's "bottom line." After evaluation by the Cabinet-level Economic

Policy Committee, the President could then issue a statement accepting some of DOE's recommendations.

Such a procedure was unorthodox; Cabinet members generally do not wish to air the fact that their President is not listening to them. In this case, however, Energy Secretary John Herrington was willing to bear that cost. On the opposite side of the ledger, Martin's ploy would allow DOE to get credit from "its" industry for proposing some helpful measures. If the President chose not to play along, DOE could blame the spoilers at OMB, CEA, Treasury, etc. With the Reagan Administration coming to a close the next year in any case, it was easier for the President to take the high road in his policy choices.

Martin got the necessary ducks in a row, and the report was issued on March 17. Herrington recommended a package of measures. Some were already part of Administration policy (such as repeal of the windfall profit tax, natural gas price decontrol, and easing environmental restrictions on oil and gas production). Others proposals were new (including opening the Alaska National Wildlife Refuge to oil and gas drilling, facilitating offshore drilling, maintaining a stronger SPR fill rate, and four separate tax changes). Herrington did not even mention the key issue of an oil import fee, but the accompanying analysis used more than 35 pages demonstrating that such a fee would, on balance, harm the U.S. economy.

Two months later, President Reagan's policy choices were conveyed to Congress. He noted that his Administration had already proposed several energy policy initiatives, and "if these policies had been in place, our domestic oil industry would not be

so seriously impaired today."<sup>13</sup> In addition, he proposed that Congress enact two of the four tax law changes suggested by Herrington. Reagan also said he would support an SPR fill rate of 100,000 barrels per day, but only if Congress found savings elsewhere in the budget to cover the higher cost.

Conclusions:

Henson Moore's defeat probably meant the energy security study failed in achieving its proximate political purpose. However, in a larger sense it achieved a number of important goals. It did, after all, deflect criticism of the Administration's energy policy, allowing a crucial "breathing space" while rising energy prices defused pressures for action. Administration spokesmen referred to the study for months afterwards; its critical analysis of oil import restraints buttressed the case for the Administration's energy policy. It also helped lay the groundwork for the final defeat in June of the Bentsen Amendment to the 1987 Trade Act, which would have required a fee or quota. That vote spelled the end of consideration of an import fee. It would be a mistake, however, to attribute the victory purely to the sweet reason of DOE's analysis. Like most major Congressional moves, it was the product of a clash between large coalitions of interests - - in this case energy consuming industries versus producers. As one observer noted, proponents of a fee "can count. After that vote, they knew they didn't have the votes to put it through, so there was no sense in fighting over it again."<sup>14</sup>

The study process also put pressure on DOE's bureaucratic opponents, and -- when coupled with the political pressure on

the White House from industry and regional interests -- resulted in three small victories for DOE: two tax changes that Treasury had to swallow, and a commitment in principle to higher SPR fill, with the requisite bow to OMB's budgetary concerns.

This case is a clear illustration of the value of manipulating process to serve substantive ends. All these benefits were achievable only because Bill Martin was able to concoct a procedural device that enabled him to overcome the interagency impasse and issue the report under DOE's responsibility. "Martin recognized that if he had to get agreement among the agencies, the study would never come out," one participant said afterwards. "He avoided provocative moves, and cleared everything in principle with the White House." <sup>15</sup> Another observer paid tribute to Martin's bureaucratic savvy and political sense. "His solution allowed DOE to cater to its clientele, played OMB and Treasury as the bad guys, and kept the President's nose clean." <sup>16</sup> Given the Administration's multitudinous conflicting goals in this area, that was probably the best possible outcome.

1. "U.S. Oilman sees policy spur from Mideast," Christian Science Monitor, April 17, 1986, p. 23.
2. "Reagan Affirms Support of Bush on Oil Remarks," New York Times, April 10, 1986, p. A23.
3. Author's interviews with NSC and State Department officials,  
December 12, 1989.
4. Author's interviews with NSC and State Department officials,  
December 12, 1989.
5. Author's interview with NSC official, December 12, 1989.
6. "Reagan's Political Pitch to the Oil Patch," Business Week,  
October 6, 1986, p. 39.
7. "Reagan Orders Energy Study," New York Times, September 20,  
1986, p. 35.
8. Author's interview with State Department official, December  
12, 1989.
9. "U.S. Tries to Head Off Another Energy Crisis," Christian Science Monitor, March 16, 1987, p. 8.

10. Author's interviews with State and NSC officials, December 12, 1989.
11. "Call for Oil Import Fee Grows Louder," Christian Science Monitor, November 18, 1986, p. 34.
12. "U.S. Energy Independence Not A Desirable Goal, Official Says," Platt's Oilgram News, Jan. 29, 1987, p. 5.
13. "Energy Security, Message to the Congress, May 6, 1987," Weekly Compilation of Presidential Documents, May 11, 1987.
14. Author's interview with State Department official, December 12, 1989.
15. Author's interview with State Department official, December 12, 1989.
16. Author's interview with NSC official, December 12, 1989.